

## **APPA Urges DOE to Recognize the Role of the RTO-Operated Markets In New England's Infrastructure Concerns**

The American Public Power Association (APPA) commends the Department of Energy (DOE) for holding a public meeting of the Quadrennial Energy Review (QER) on April 21 to examine infrastructure constraints in New England, and especially for the DOE's recognition of the contribution of the electricity market structure to the difficulties facing the region in the near future. As noted by DOE in the Background section of the April 15 memorandum pertaining to this meeting, "Local regulators and officials are increasingly concerned that the regulatory structure and business model that characterize New England's energy supply system do not ensure reliable, low-cost energy during periods of high demand—especially in winter months."

APPA also appreciates DOE's inclusion of a public power representative, John Bilda, General Manager of Norwich Public Utilities and APPA Board member, as a panelist at the meeting.

APPA urges DOE to continue to recognize the role of the wholesale electricity market structure as the QER moves forward to examine regional infrastructure concerns in New England and elsewhere. New England's wholesale market is one of the restructured electricity markets operated by a Regional Transmission Organization (RTO) or Independent System Operator (ISO), generally referred to as RTOs. These RTOs operate complex centrally-administered markets for electricity, capacity and ancillary services that are characterized by an absence of price regulation, complex and frequently changing rules, and high and volatile prices. New England's wholesale market, operated by the New England Independent System Operator (ISO NE), is one of the RTOs whose region includes states that have implemented retail access and whose investor-owned utilities no longer own generation. As a result, the region is largely characterized by merchant-owned power plants whose decision-making may be driven by maximizing profits rather than achieving a balanced and economic mix of resources for the region and its consumers. This is evidenced by the region's growing reliance on natural gas-fired generation, currently greater than 50 percent, without the development of an adequate infrastructure to deliver the natural gas required for such generation to be available and at reasonable prices.

ISO NE operates what is known as a capacity market, established to ensure that generation and demand response resources would be in place to provide for the reliability needs of the region. As demonstrated in New England, this market has been unsuccessful in achieving an optimal mix of resources from a cost, environmental and reliability perspective. Even more problematic is that owners of existing merchant generation have sought to protect their earnings through changes in the capacity market rules, known as the "Minimum Offer Price Rule or MOPR." The MOPR requires that certain new resources can only offer to sell their capacity above a certain price floor. Such a requirement impedes the development of new supply and unjustly diminishes

the role of state and local entities, including public power, in the determination of the resource needs for the region.

Because of the RTO-operated capacity markets' high costs to consumers and inability to address regional resource needs, APPA and others have called for a phase-out of these markets. Under APPA's proposal, the capacity markets would be replaced with a system of bilateral contracts, procured through competitive solicitations conducted by state and local entities to achieve the needed resource adequacy and ensure an optimal mix of resources. APPA urges DOE to recognize the importance of reforming the RTO markets as one piece of the puzzle in addressing the infrastructure needs facing the New England region.